

# E-Commerce Monitoring System

Functions of the e-Commerce Unit in the Tax Chamber in Bydgoszcz

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**Organisation:** Tax Chamber in Bydgoszcz

**Country:** Poland

**Level of government:** Central government

**Sector:** General public services

**Type:**

**Launched in:** 2009

**Overall development time:** 41 months

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# Description

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The e-Commerce Monitoring Unit in the Tax Chamber in Bydgoszcz was established as a response to the increasing number of Internet tax frauds in Poland. First attempts of monitoring the Internet were made in 2006. Those actions had local and uncoordinated character. The e-Commerce Monitoring Unit was established to centralise knowledge.

The unit serves the Polish tax offices by collecting materials and information of tax evasion of any e-commerce activity. It employs highly skilled IT specialists, who are responsible for difficult analytical tasks and tracing down Internet materials of tax frauds. The result of their work is sent to tax offices and becomes an important source of data in further actions taken at local level, such as tax audits or tax proceedings. Thanks to the unit, tax officers at local level have been able to gain access to materials and information, which were previously always out of their reach. The e-Commerce Monitoring Unit serves as a kind of shared services centre providing assistance for local tax offices.

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## Why the innovation was developed

The e-Commerce Unit in the Tax Chamber in Bydgoszcz was established as an answer to the increasing number of Internet tax frauds in Poland. The main aim of establishing the unit was to adjust the Polish Tax Administration to the need to efficiently prevent and counter tax avoidance in e-commerce. First attempts of monitoring the Internet were made in 2006. Those actions had local and uncoordinated character. It was noticed that tax offices, which were responsible for carrying out tax audits in Poland, had serious problems with auditing the e-commerce (tax audit is exclusively carried out by the tax offices). The lack of special knowledge among tax officers and the lack of advanced tools were the main reasons for this situation.

- Improve service outcome by increasing the total findings of fraudulent e-commerce cases.
  - Improve service quality by gathering more accurate information leading to better developed and shorter proceedings.
  - Improve cost efficiency by centralising investments and costs.
  - Improve user satisfaction by improving the access to information and through less involvement in technical aspects.
  - The employees of Tax Offices responsible for handling e-commerce cases (around 4 500 employees).
  - Legal and natural persons carrying out e-commerce businesses.
  - Internet users doing online shopping.
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## Existing similar practices

### **DISC – Dutch Internet Service Centre**

In other countries' public administrations

Dutch Tax Administration

It is central unit which has similar tasks and objectives as our unit.

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### **BISC Belgian Internet Service Centre**

In other countries' public administrations

Belgian Tax Administration

Some European Tax Administrations have similar solutions. The main differences result from various legal backgrounds. The main similarity is based on transferring responsibilities for difficult analytical tasks and obtaining information on Internet tax frauds from regular auditors to high-skilled IT specialists.

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### **Danish e-Audit Support Centre**

In other countries' public administrations

Danish Tax Administration

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# Results

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## Efficiency

Constant growth of total number of performed tax audits, number of audits with findings and amount of disclosed findings in the field of e-commerce has been noticed since the beginning of 2009. The table below presents quantitative information on e-commerce audits performed in the years 2009 - 2011.

| Year | Total Number of Audits | Total Number of Findings | Audit Efficiency |
|------|------------------------|--------------------------|------------------|
| 2009 | 1 531                  | 960                      | 62,70%           |
| 2010 | 2 295                  | 1 662                    | 72,41%           |
| 2011 | 3 080                  | 2 380                    | 77,27%           |

## Effectiveness

Increasing awareness of tax obligation among Internet users making tax policy more effective.

- Audits carried out in the years 2008 and 2009 discovered more irregularities than audits of 2011 and 2012. Be aware that audits carried out in 2013 can cover almost the last six years (from 2007).
- Improvement of effectiveness may be also illustrated by decreasing number of outside information on undeclared e-commerce activities.

## Service quality

### Reliability:

The unit and its activity protect healthy competition among players on e-commerce market by identifying and eliminating subjects from the market, that achieve illegal “competitiveness edge” as the result of not declaring their activity for tax purposes.

## Evaluation

The unit reports results of its activity to the Ministry of Finance every half a year. The report includes:

- Number of motions submitted by tax offices.
- Number of motions served by the unit.
- Turnover estimated by the unit.
- Number of cases conducted on the base of information gathered by the unit.
- Results of cases conducted on the base of information gathered by the unit.

Additionally, the Ministry of Finance monitors all tax audits and their results including e-commerce audits.

# Development

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## Design

The economic environment was permanently monitored by the Ministry of Finance identifying the growing importance of e-commerce. At the same time, it was realised that the tax administration had not efficient solutions in this field. At this stage, the need of searching a new solution was identified. The Tax Chamber in Bydgoszcz was appointed as one of the organisations within the tax administration to find the solution. The team took the following steps:

- Analysing existing solutions in other countries.
- Analysing the legal environment especially tax law.
- Analysing previous e-commerce cases in order to identify weaknesses of previous solutions.
- Analysing problems and needs reported by tax offices.

On the basis of these analyses the initial conception was created.

Design time: 9 months

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## Testing

There was no phase of testing. The designed solution was implemented without testing. After implementation, the designed solutions were systematically adjusted.

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## Implementation

### Tools used:

- Changing of internal procedures.
- Changing of organisational rules of the Tax Chamber in Bydgoszcz accepted by the Ministry of Finance.
- Preparation of forms used in mutual cooperation between the unit and tax offices.
- Preparation of list of equipment and asset of the unit.
- Purchase of assets and preparation of work space for the unit.
- Presentations on rules of collaboration with the unit given to representatives of tax offices.

### Resources used:

Costs were covered by Tax Chamber in Bydgoszcz from budget accepted by Ministry of Finance.

Direct costs of equipment:

- 8 PC computers.
- 4 laptops.
- 6 PS computers.
- 1 server.
- 1 multi-task printer.
- Software (OS, Office packages).
- Salaries of 8 employees.
- 3 rooms.
- Participation in day to day costs of whole organisation (telephone and Internet, energy, heating etc.).

Implementation time: 8 months

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## Diffusion

- 2009 - 2010: The number of motions of assistance was steadily growing. The scope and amount of cases extended. First feedbacks were coming. They showed very good results of cases conducted in cooperation with the unit.
- 2010: Tax offices reported needs of training to select tax payers for further e-commerce audits and with regards to methods of conducting e-commerce cases.
- 2010/2011: Periodical meetings with representatives of the Ministry of Finance and tax offices were held. During those meetings all key players exchanged their remarks and suggestions on mutual cooperation.
- 2010/2011: Employees of the unit trained tax officers on how to select tax payers for further e-commerce audits and on the methods of conducting e-commerce cases.
- 2011:
  - The number of motions for assistance continued to grow.
  - 1 June 2011: To guaranty the high quality of services to deal with submitted motions, an identical unit was established in south-west Poland in Wroclaw. From then on, cases were divided between those two units.
  - E-Commerce Analysing Unit was established in the Fiscal Audit Office in Białystok.
  - Similar e-Commerce Unit (for purposes of Customs and Duties) was established within the Customs Administration.

Diffusion time: 24 months

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## Challenges and solutions

- Traditional way of thinking about tax audit had to be changed.
  - IT tools had to be developed.
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## Partnerships

### Local tax offices

Other Public Sector

Auditors and managers employed in local tax offices for analysing legal backgrounds (tax law) and previous e-commerce audits' results. Mutual cooperation between our unit and tax offices.

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### Ministry of Finance

Other Public Sector

Managers and specialists employed in the Ministry of Finance for analysing and accepting the concept presented by the task team from the Tax Chamber in Bydgoszcz. The Ministry co-financed the implementation.

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### European Tax Administrations

Other Public Sector

At the initial stage, experts of other European Tax Administrations presented solutions implemented in their organisations.

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# Lessons Learned

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## Lessons Learned

- The innovation is a great success. There are some general thoughts that helped us to reach it. Firstly, after identification of the need, it is very important to analyse all reasons, for which we want to change the present situation. What are the main problems that do not allow us to achieve the desired state (quality, efficiency etc.) in the present surrounding?
  - Be open-minded and creative, while searching new solutions. Analyse all limits you have to face (legal, organisational), trial results and solutions to similar problems used in other organisations.
  - Maybe you do not need to begin all alone; maybe you can use existing solutions and just adopt them to your surrounding and needs. Maybe all you have to do is the adjustment. It is much cheaper and smarter to use others' experience than create everything from the very beginning and make all those inevitable mistakes.
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## Conditions for success

Human resources are crucial for success. Selection of employees, who have good IT knowledge and basic understanding of taxes is one of key factors. Of course, financial means are always important, especially in the first phase, when you make initial investment in equipment.

